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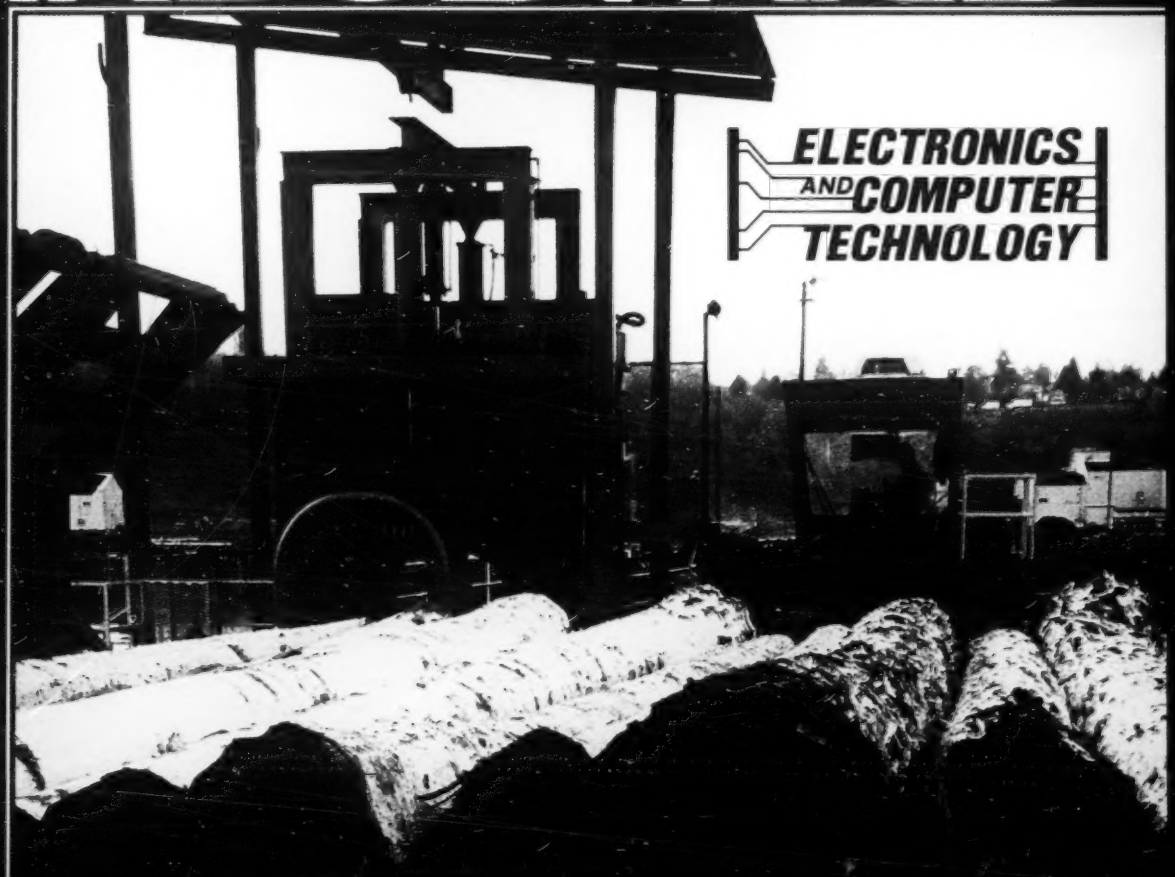
SEPTEMBER 1986

FOREST INDUSTRIES

LOGGING/PULPWOOD/FORESTRY/LUMBER/PANELS



$24-million program paved path to use of small logs

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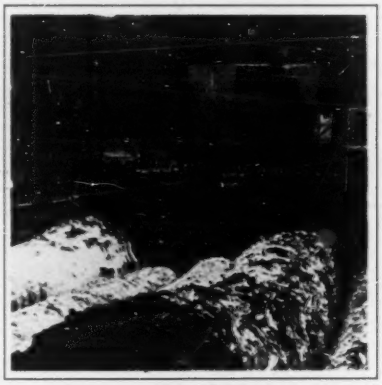
High labor costs and low productivity characterize 'overmature' lumber industry. An incentive program at WTD Industries, Portland, Ore., is helping to balance the equation profitably



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Hammermill purchase makes IP #1 paper firm

NEW YORK, N.Y.—International Paper Co. will move back into the top spot among U.S. paper producers when it completes its purchase of Hammermill Paper Co. IP lost the title to James River Co. last year when James River bought Crown Zellerbach Corp.

Hammermill, based in Erie, Pa., sought to merge with another paper company to thwart a takeover bid led by Paul Bilzerian. Bilzerian's group offered $52 a share—$900 million—for Hammermill. IP said it will pay $64.50 a share, or $1.1 billion, to buy the company, which had $1.88 billion in sales last year.

The Bilzerian group owns nearly 20% of Hammermill stock. Selling it to IP would yield a profit of about $60 million. Hammermill stock was selling for around $46 a share before the takeover bid.

IP specializes in commodity grades of paper and wood products. Buying Hammermill would give the company a major presence in the specialty paper market.

Profit margins on specialty papers, such as high-quality writing and printing papers, are much higher than on the packaging papers, business forms and similar grades which account for 80% of IP's output.

IP said it expects to complete the merger by October, if there are no problems with federal antitrust laws.

IP also said it will sell its headquarters building in New York City. The company will move its headquarters to suburban Westchester County, N.Y., and will relocate some business and staff units outside the New York area. Specific locations will be announced later this year. The company billed the moves as cost-cutting measures.

In other news of acquisitions in the forest industry, Louisiana-Pacific Corp. has signed a non-binding letter of intent to buy all of the California properties of Timber Realization Co. for $95 million. The purchase is subject to approval of L-P directors, Timber Realization holders, government approvals and a final purchase agreement. This process could be completed by October.

The property includes more than 100,000 acres of timberland, most of it in Mendocino County, and a sawmill at Calpella, Calif., with a capacity of 150,000 bd ft per shift. ■

U.S. forest industry results second quarter 1986 ($ millions)

Company	Sales	% change 1986/85	Earnings[1]	% change 1986/85
Boise Cascade	$945.1	-0.8	$31.33[3]	-1.1[2]
Champion Intl.	1,096.4	-31.4	50.46	-16.4
Georgia-Pacific	1,930.0	7.8	86.00[3]	28.3
Hammermill Paper	456.2	4.3	22.06[2]	103.9
International Paper	1,230.0	6.9	71.00	102.8
Louisiana-Pacific	394.0	14.2	24.54[2]	349.5[2]
Pope & Talbot	76.1	-10.7	3.62	97.3
Potlatch Corp.	249.9	0.5	19.43	84.3
Scott Paper	829.5	9.0	56.30	6.0
Southwest Forest	158.5	10.1	1.86	50.8
Temple-Inland	313.5	-4.0	19.30	-20.2
Weyerhaeuser	1,497.4	6.9	68.38	14.6
Willamette	309.8	1.9	19.34	9.6
Canadian companies (C$ millions)				
Abitibi-Price	701.7	5.9	24.60	15.5
B.C. Forest	324.2	11.8	20.00	181.7
Canfor Corp.	288.8	-6.1	11.20	n.m.[4]
Domtar Inc.	574.3	8.9	29.10	55.6
Great Lakes FP	164.6	12.1	5.56	n.m.[4]
MacMillan Bloedel	698.7	16.8	49.10	529.5

[1] Income after taxes from continuing operations, excluding most significant nonrecurring items.
[2] Boise Cascade: Includes $17.8 million in 1985 from mill sale. Hammermill. Includes pretax gain of $6.75 million from contract settlement. L-P: Includes $2.4-million pretax charge relating to sawmill sale and reserve loss on a venture capital investment.
[3] Change in accounting method on 1/1/86 reduced pension costs.
[4] Not meaningful—loss in 1985 quarter.

Second-quarter profits rose for many firms

SAN FRANCISCO, CALIF.—Many forest industry companies saw their profits go up during the second quarter, but weak lumber and plywood prices kept earnings below par. Prices for pulp and paper products increased somewhat, helping profits at integrated companies.

Canadian companies also reported a good second quarter, bolstered both by favorable economic conditions and a weak Canadian dollar.

Louisiana-Pacific Corp. reported its best quarterly sales ever, $394.1 million. Earnings of $24.5 million were the firm's third-highest quarterly results. Company chairman and president Harry Merlo said more efficient operations and cheaper raw materials led to the increased profits.

Merlo cited the cheaper U.S. dollar as a boost to pulp prices and exports. He noted that strong homebuilding activity should continue to help sales of building products.

MacMillan Bloedel's profits jumped in a spectacular fashion, quintupling from the 1985 quarter to C$49.1 million. The 1985 figure was 10 times better than MB did in 1984's second quarter. Strong sales, some higher prices, lower costs and a shift to higher-value products all contributed to the company's robust performance.

For Southwest Forest Industries, higher prices for pulp and linerboard and major productivity gains in building products created a major turnaround. The company lost more than $2.8 million on operations in 1985's second quarter; this year, operations earned more than $2.8 million.

Canfor Corp. also reported a profits turnaround. The company lost C$8.6 million in last year's second quarter, but earned C$11.2 million this year in the period. The higher profits came despite

a 6% decrease in sales, and resulted from lower costs and higher pulp and paper prices.

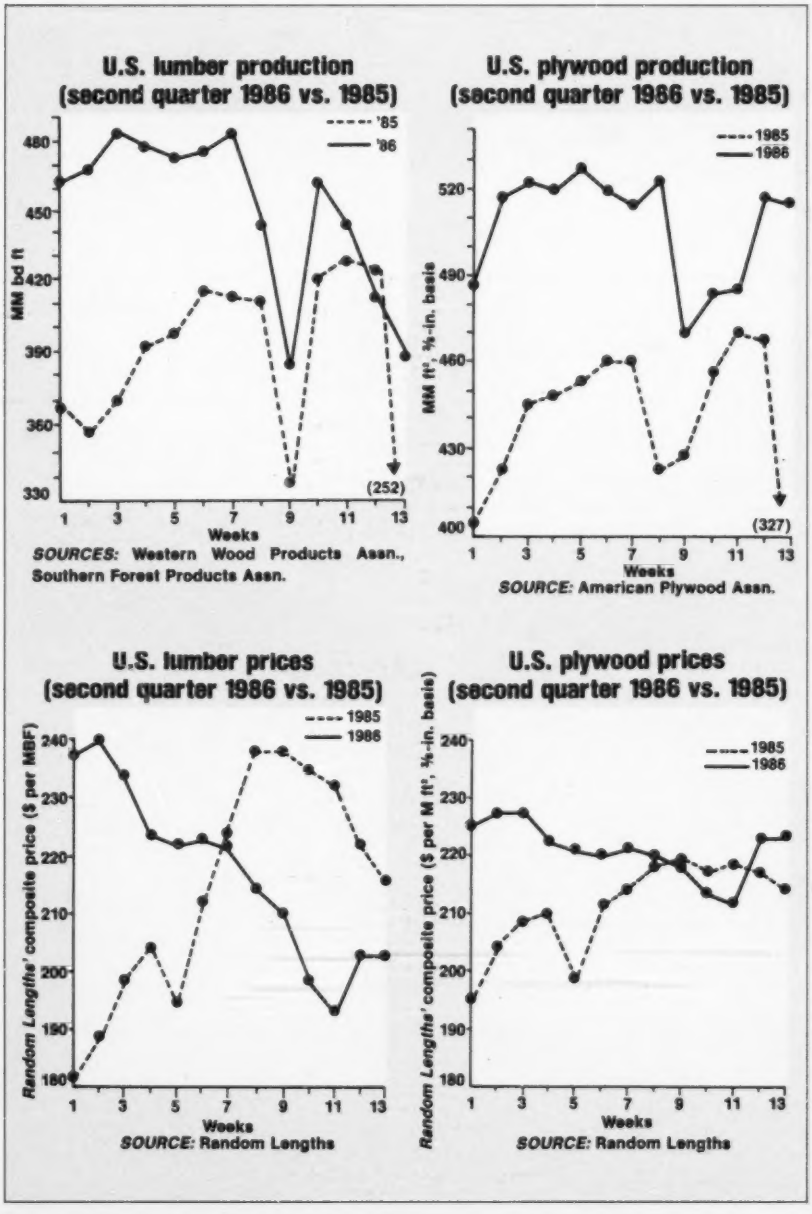
Georgia-Pacific's 28% gain in quarterly earnings "reflected increased demand for forest products, improved manufacturing efficiencies and product mix, and reduced operating costs," said company chairman and chief executive officer T. Marshall Hahn Jr. G-P earned $86 million during the quarter.

Potlatch Corp. officers also reported good news for the quarter. Although sales rose less than 1%, profits jumped 84% to $19.4 million. The company's "improved cost competitiveness" was responsible for the higher earnings, according to Potlatch chairman and chief executive officer Richard B. Madden.

The company's wood products group stayed out of the red for the second straight quarter. It earned $9.8 million, compared to a loss of $1.7 million for 1985's second quarter. Lower operating costs and improved demand boosted profits for both solid-wood and paper products operations, Madden observed. Chances for higher prices on the paper side make Madden optimistic about Potlatch's prospects for higher profits in the rest of 1986.

Temple-Inland Inc. saw sales and profits fall during the quarter, as compared to the same period last year. Prices for both paper and building products were too low, complained president and chief executive officer Clifford J. Grum. Cost-cutting programs did boost margins in all of the company's operations over those reported in the first quarter. Grum said he expects improving profits on the paper side, though soft wood-products prices may drag down results there.

The summer strike of lumber and plywood workers is likely to hurt third-quarter profits of affected companies. But firmer product prices which the strike brought on could help profits of producers which kept running. ■



Waferboard plants top capital-projects list

SAN FRANCISCO, CALIF.—Waferboard continues to be the star product in the forest industry, with new plants planned in both the United States and Canada.

U.S. Waferboard Co. of Vancouver, B.C., will build a $45-million waferboard plant in McCleary, Wash. The plant will create about 200 jobs in the economically depressed town of 1400.

Simpson Timber Co. closed its plywood plant there last year. The plywood operation had been the oldest continuously operating plant in the Northwest. Plans call for the plant to start up in about 18 months. Financing includes $10 million in industrial revenue bonds to be issued through the Port of Grays Harbor and a three-year deferral of state sales taxes on construction.

Normick Perron Inc. and two partners have formed a new company which will build a waferboard plant at Chambord, Que. The C$49-million plant will produce 250 million ft² a year. Normick Perron, a major forest products firm based in La Sarre, Que., will own 51% of the new company. Its partners are a federation of 6400 private woodlot owners in the Saguenay-Lac St.-Jean area and a group of seven forestry cooperatives in the same region. Chambord is about 270 miles north of Montreal. ■